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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Do Aged Medicare Patients Receive More Costly Routine Nursing Services? Evidence Inconclusive

SUMMARY

ORIGINAL

Medicare now assumes that it is more costly for hospitals to provide routine nursing services to aged than to nonaged inpatients and pays hospitals a premium. This assumption in Medicare routine nursing salary reimbursement is questionable. However, the existing or available evidence of an actual cost difference is not conclusive. GAO analyzed.

GAO is confident that the methodology it has developed will determine whether a routine nursing cost differential on an industrywide basis and, if so, estimate its amount. However, GAO cannot be certain that the methodology will produce results precise enough to calculate hospital reimbursements for routine nursing services. To enable GAO to make the study, the Congress would have to appropriate a substantial sum specifically for that purpose.

HRD-82-32

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

DO AGED MEDICARE PATIENTS RECEIVE MORE COSTLY ROUTINE NURSING SERVICES? EVIDENCE INCONCLUSIVE

D I G E S T

Many in the hospital industry maintain that elderly patients, almost all of whom are covered by Medicare, require more daily routine nursing services than other hospital patients. Results of a 1966 American Hospital Association study reported that the elderly received more services. Based partly on this, Medicare pays a routine nursing salary cost differential.

This differential represents a significant cost to the Medicare program--an estimated $197 million in 1982--and an important income to hospitals.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) reduced the differential from 8-1/2 to 5 percent and instructed GAO to study the existence and size of a routine nursing salary cost differential and submit the results within 6 months. This report critiques existing studies of the differential and describes a methodology that GAO would propose to use if it were to independently study this issue.

STUDIES DO NOT SUPPORT EXISTENCE OF A DIFFERENTIAL

None of the studies GAO identified adequately supports the existence of an industrywide routine nursing salary cost differential. Conversely, none of the studies conclusively shows that a differential does not exist. A recent study--conducted by the Health Care Financing Administration, which administers Medicare--provides relatively strong evidence that an industrywide differential does not exist. (See ch. 2.)

Only three of the studies analyzed, the 1966 American Hospital Association study, the 1975 Levine and Phillip study, and the 1981 Health Care Financing Administration study, were of sufficient scale to provide evidence on an industrywide basis. Of these three, only the

Association study supports the existence of a differential, and its support is significantly weakened by several limitations. The other two studies indicate that a differential does not exist, although the support provided by the Levine and Phillip study is also weakened by limitations. The Health Care Financing Administration study supplies relatively strong though not conclusive statistical evidence that an industrywide differential does not exist.

Of the other studies, only the 1980 Commission for Administrative Services in Hospitals study in California, which reported a differential, and the 1978 New Jersey study, which did not, are sufficiently extensive for their results to be relevant to an entire State. Both studies have serious limitations, although the New Jersey study is better. The other studies, almost all of which report a differential, are too small and have too many limitations for their results to be useful in determining the existence or size of a differential.

Overall, GAO believes that, on balance, evidence tends to be against the existence of an industrywide nursing cost differential. However, the studies of the issue, whether taken singly or together, do not provide conclusive evidence either for or against the existence of such a differential.

PROPOSED GAO STUDY

Were GAO to attempt to determine the existence and size of an industrywide nursing differential, it would propose to conduct a work-sampling study in routine nursing care units in a nationwide sample of hospitals. (See ch. 3.)

The study sample would be 90 hospitals grouped into four strata on the basis of reported routine nursing salary costs. This sample would be weighted toward large hospitals with a high proportion of Medicare patients and would exclude hospitals reporting less than $100,000 in routine nursing salary costs.

While GAO believes that the sample would produce sufficiently precise results to use for calculating hospital reimbursement for routine

nursing costs, there is still some doubt. To resolve this doubt, GAO would collect data on the first 30 hospitals in the study and use the data to estimate required sample size before continuing with the study. If the sample size required for the desired level of statistical precision were substantially higher than 90, GAO would reconsider whether the study should proceed.

GAO would contract for nurses who would randomly observe each member of the nursing staff of each nursing unit under study to determine what they are doing at the moment of observation. GAO would combine this observation data with data obtained from hospital records to determine the average cost of routine nursing for aged and for nonaged patients. The ratio of these costs would be the differential.

GAO estimates that such a study would cost about $8.3 million. Of this, $3.6 million would represent the cost of data collection and processing procured through contract for which a special congressional appropriation would be needed. The remainder represents GAO personnel and other internal costs.

GAO does not believe that the proposed sample is large enough to permit reliable estimation of the influence of hospital or patient characteristics on the size of any differential. A much larger sample at significantly higher cost would probably be necessary.

AGENCY AND PROVIDER ORGANIZATION COMMENTS

The Department of Health and Human Services (HHS) generally agreed with GAO's analysis of the prior studies and stated that it believes the Health Care Financing Administration study shows that no industrywide routine nursing cost differential exists.

The American Hospital Association, the American Nurses' Association, the Catholic Health Association, the Federation of American Hospitals, and the Hospital Financial Management Association also generally agreed with GAO's analysis of the prior studies except for the analysis of the Health Care Financing Administration study. These organizations raised a number of methodologic questions about that study and said they believed GAO is giving too much weight to it.

GAO continues to believe that the Health Care Financing Administration study provides relatively strong, although not conclusive, evidence that an aggregate routine nursing cost differential does not exist. (See pp. 14-20.)

HHS questions whether the benefits to be gained from the proposed GAO study justify the expected cost of the study. The provider organizations all support conduct of such a study. (See pp. 30-32.)

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Background	2
	Scope and methodology	5
2	STUDIES DO NOT ADEQUATELY SUPPORT THE EXISTENCE OF A MEDICARE DIFFERENTIAL	6
	The 1966 AHA study	6
	The Levine and Phillip study	8
	The New Jersey study	10
	The CASH study	11
	The HCFA study	12
	Other studies	13
	Conclusions	13
	Agency and provider organization comments and our evaluation	14
3	THE PROPOSED GAO STUDY	21
	Objectives and scope	21
	Hospital sample size	22
	Hospital selection methodology	23
	Data collection methodology	24
	The Medicare differential	27
	Cost	28
	Conclusions	29
	Agency and provider organization comments and our evaluation	30
APPENDIX		
I	Routine nursing differential studies	33
II	Proposed methodology, routine care differential study	48
III	Method of calculating the differential	78
IV	Bibliography of nursing differential studies	80
V	Data analysis plan	82
VI	Letter dated August 14, 1981, from the Chairman, Senate Committee on Finance	88

		Page
APPENDIX		
VII	Comments of the American Hospital Association	90
VIII	Comments of the Hospital Financial Management Association	102
IX	Comments of the Federation of American Hospitals	108
X	Comments of the Catholic Health Asociation	110

ABBREVIATIONS

AHA	American Hospital Association
ANA	American Nurses' Association
CASH	Commission for Administrative Services in Hospitals
CHA	Catholic Health Association
DRG	diagnosis related groups
FAH	Federation of American Hospitals
GAO	General Accounting Office
HCA	Hospital Corporation of America
HCFA	Health Care Financing Administration
HFMA	Hospital Financial Management Association
HHS	Department of Health and Human Services
LPN	licensed practical nurse
RN	registered nurse